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Weekly Commentary, Selected Financial Data, and Business Indicators

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Reports Of The Death Of Monetarism . . .

Despite the soggy pace of business activity, double-digit rates of unemployment and soaring numbers of business bankruptcies, the financial markets have experienced powerful and broad-based rallies, apparently marching to the beat of a different drummer than the real economy. Underlying the euphoria is a pervasive belief that the Federal Reserve has reordered its priorities, from combating formerly high rates of inflation at the expense of creating a recession, to setting the stage for a revival of economic activity. If so, according to this view, such a course of action must entail stepped-up central bank efforts to guide interest rates lower, regardless of near-term trends in the money supply. In turn, this would diminish, if not altogether eliminate, the possibility of a firming of the credit reins any time soon.

As if on cue—and on the same day that the Labor Department announced that the unemployment rate in September reached its highest level in over 40 years—the Fed cut the discount rate by one-half percentage point. Thus it lent credence to those beliefs that a fundamental change in monetary policy was underway—and stock and bond prices promptly soared. But while these financial developments are certainly a welcome change in an otherwise bleak economic picture, it may be too soon to mark this period as either a watershed for monetarism in general, or the basic, inflation-fighting thrust of monetary policy in particular. For, simply put, the Fed's decision to both "attach much less than usual weight" to short-term fluctuations in the level of M1 as well as tolerate above target money supply growth in coming weeks, represents more of an evolution of existing policy, rather than a fundamental retreat from the Fed's own particular brand of monetarism.

Take, for example, admonishments that weekly gyrations in M1 can safely be ignored, at least for a while. Although this may come as a surprise to some, the Fed has cautioned against reading too much significance into the weekly numbers almost since its switch to monetarism back in 1979. This is because of the substantial amount of "noise" associated with any weekly statistic, as well as the inadequate seasonal adjustment factors which have plagued M1 for years. Add to this the almost certain

DURATION AND DEPTH OF POST-WORLD WAR II RECESSIONS

Cycle Peak	Cycle Trough	Duration In Months	Depth: Decline in Industrial Production	Depth: Peak Jobless Rate	Depth: Lowest Rate Capacity Utilization
Nov 48	Oct 49	11	–10.1%	7.9%	71.7%
Jul 53	May 54	10	– 9.4	6.1	79.4
Aug 57	Apr 58	8	–13.5	7.5	71.3
Apr 60	Feb 61	10	– 8.6	7.1	73.5
Dec 69	Nov 70	11	– 6.8	6.1	75.8
Nov 73	Mar 75	16	–15.1	9.0	69.0
Jan 80	Jul 80	6	– 8.3	7.8	74.9
AVERAGE		10	–10.3	7.4	73.7
Jul 81	To Date	15	–10.8	10.1	69.4

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distortions that will arise from the maturing of more than $31 billion of All-Savers certificates in October (a good-sized chunk of which may, at least temporarily, end up in M1) and the soon-to-be-introduced bank money market fund-type accounts, and it becomes more likely than ever that near-term trends in M1 may be unreliable guides to future developments in the economy and prices.

. . . May Be Greatly Exaggerated . . .

Central bank tolerance of above target money growth, probably for at least the balance of this year, reemphasizes, rather than departs from, past policy statements and actions. All year long, the Fed has been hesitant to lean against beginning-of-quarter money supply bulges. This was stated publicly last February by Fed Chairman Paul A. Volcker. And it was reiterated early last summer when the policy-setting Federal Open Market Committee stated clearly that the Fed "would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident . . ." (Financial Digest—September 13, 1982). With few signs on the horizon that recovery was near, legislative and regulatory changes distorting the significance of near-term trends in M1, and year-to-date money supply growth running at less than one per cent above its upper target boundary, the Fed apparently decided to continue tolerating above-target money growth—only now the markets

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/6/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.749	+ .999	+11.205
Loans to Depository Inst.	.604	— .145	— .541
Float	1.706	— .069	— 2.376
Total Reserve Bank Credit	153.902	+ 1.136	+ 8.976
Treasury Deposits with Federal Reserve Banks	4.704	+ .215	+ 1.159
Currency Outside Banks	131.577	+ .385	+ 9.201
Member Bank Reserves:			
Required	39.731	— .548	— .401
Excess (Deficiency)	.607	+ .324	+ .404
Total Reserves Held	40.338	— .224	+ .003
Net Free Reserves	.107	+ .461	+ .893
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	98.783	+ .844	+ 7.941
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	464.9	+ 10.0‡	+ 6.9‡
M2 (September '82)	1,954.8	+ 9.8	+ 9.9
M3 (September '82)	2,363.1	+ 11.7	+ 10.5
L (June '82)	2,797.8	+ 12.0	+ 11.6

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 10/15/82			
‡U.S. Treasury Bills	7.30%	7.60%	8.05%
* Federal Agencies	7.55	8.60	9.60
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.15	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.25	9.40	9.95

‡Finance Company Paper—Prime

5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.63
60- 89 days	8.63
90 179 days	8.63
180-239 days	8.63
240-270 days	8.63

‡* Bankers' Acceptances

Nov.	9.10%
Dec.	9.10
Jan.	9.10
Feb.	9.10
Mar.	9.10
Apr.	9.00

‡Industrial Paper—Prime

30- 89 days	8.50%
90-120 days	8.50

†Federal Funds Effective Rate 9.40%

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,045	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,478	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	2.1	— 5.1	— 1.5
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Sep '82n	— 1.2%	7.2%	2.4%
Civilian Employment (Thousands of Persons)†	Sep '82	99,720	99,839	100,258
Unemployment as % of Civilian Labor Force†	Sep '82	10.1%	9.8%	7.6%
Personal Income*	Aug '82	$ 2,601	$ 2,593	$ 2,460
Leading Indicators Composite Index (1967=100)†	Aug '82	128.6	129.8	134.1
Industrial Production Index (1967=100) †	Sep '82n	137.3	138.1	151.6
Net Change in Consumer Installment Credit†	Aug '82	$ 0.07	$ 0.57	$ 2.43
U.S. Merchandise Trade Balance †	Aug '82	—$ 7.08	—$ 2.42	—$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82	1,002	1,195	946
New Construction Expenditures*	Aug '82	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories†	Aug '82n	$ 515.6	$ 513.4	$ 510.1
Total Business Sales†	Aug '82n	$ 339.1	$ 344.6	$ 354.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

were relieved, instead of concerned, as they had been previously.

But by tolerating above-target money supply growth at this time, the Fed accomplishes much more than providing a near-term fillip to the financial markets. It sets the stage for a further loosening of the credit reins next year. For lost amidst the forest of what Federal Reserve Governor Henry C. Wallich has called "creative imaginative reporting" of policy shifts and monetarism abandoned, the central bank is, if not in word then certainly in deed, heeding the rising chorus of calls that next year's M1 growth targets of 2½ to 5½ per cent be lifted. Since these targets are calculated from the fourth quarter average of the series in one year to the fourth quarter average of the following year, by permitting above target money growth to occur during the final quarter of this year, the Fed raises the base from which 1983's money supply target range will be charted. This allows a bigger increase in the money supply than would have otherwise occurred if the base period was either within, or below, 1982's target range.

What this means is that if year-to-date M1 growth stays just one per cent above its upper target boundary throughout the fourth quarter, and then expands by a further 2½ per cent in 1983 (the tentative lower target boundary), by the end of next year, M1 will stand five per cent above the midpoint of this year's target range. On the other hand, if M1

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/29/82)	148,230	– 657	+18,868
New York City (9/29/82)	37,157	– 1,641	+ 5,304
Commercial Paper (9/29/82)	172,449	– 1,672	+10,733

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks			
Nationwide (9/29/82)	217,415	+ 488	+29,024
New York City (9/29/82)	61,222	– 354	+ 6,503
Total Loans Gross Adjusted			
Nationwide (9/29/82)	499,972	+ 2,360	+39,409
New York City (9/29/82)	119,526	+ 1,111	+ 6,835

Financial Markets

	Friday 10/15/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.60%	– .01	– 6.30
180-Day Bills†	8.13	– .57	– 6.52
Longest Bill†	8.80	– 1.40	– 6.10
Recent Issues:			
12⅛s 9/30/84	9.80	+ .06	
12¼s 9/30/86	10.41	– .01	
13¾s 5/15/92	11.14	– .05	
14s 11/15/11	10.85	– .18	
Municipals:			
Bond Buyer–20 Bond Index* (10/14/82)	9.25%	– .50	– 3.28
Blue List Total ($ Million)	$1,086	+$ 228	+ $ 389
30-Day Visible Supply ($ Million)	$3,467	+$ 921	+ $2,011
Total	$4,553	+$1,149	+ $2,400
Corporates:			
Moody's Aa Composite (10/14/82)	12.83%	– .34	– 2.68
30-Day Visible Supply ($ Million) ‡	$1,210	+$ 400	NA
Stocks:			
Dow-Jones Averages:			
Industrials	993.10	+ 6.25	+ 141.41
Transportation	401.98	+ 16.19	+ 38.27
Utilities	121.26	+ 1.01	+ 18.18
65 Stocks	385.27	+ 6.27	+ 50.27
Standard and Poor's 500 Stocks	133.57	+ 2.52	+ 14.38
N.Y.S.E. Composite Index	76.74	+ 1.74	+ 7.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	118,642	+20,754	+ 79,730

* 46% Taxable equivalent 17.13%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

	Friday 10/15/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.63%	9.63%
1 month	10.00	10.63
3 month	10.31	10.75
6 month	10.44	11.13
1 year	10.81	11.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.90%	12.80%
Long Term (7 to 15 yrs.)	12.80	13.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/15/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02042	48.97
Canada	.8118	1.2318
Denmark	.1111	9.0000
France	.1400	7.1415
Germany	.3964	2.5227
Italy	.0006946	1439.50
Japan	.003714	269.28
Mexico	.009346	107.00
Netherlands	.3632	2.7530
Switzerland	.4641	2.1548
U.K.	1.7030	.5872

grows by the maximum acceptable rate of 5½ per cent, by yearend it will be more than eight per cent higher than this year's midpoint. However, because overshooting this year's upper target boundary would be the opposite of developments in the fourth quarter of 1981, it should have the opposite effect on interest rates. Last year at this time, the actual level of M1 fell well below its lower growth target boundary, causing allowable money supply growth in 1982 to be unduly restrictive, and lofty real interest rates to develop. This led to widespread business failures and stresses in the financial system. It is not inconceivable that current monetary policy will keep interest rates down over the next few months, thus helping to brighten the economic scene.

. . . But The Health Of The Economy . . .

Meanwhile, conditions remain gloomy. In September, 11.3 million people looked for work but could not find it. This represented 10.1 per cent of the labor force—a dismal picture, especially when improvement is not imminent.

Traditionally, developments in the unemployment situation lag the swings in the economy by several months. Following the past four recessions, recovery had been firmly underway for an average of six months before the job market improved. But currently, the economy remains mired in recession as demand for business output continues to decline, leading to a renewed rise in inventories. In an effort to trim excess stocks, production lines slowed further in September—dropping by 0.6 per cent, month-over-month—with the slide in industrial production since the beginning of the recession totaling 10.8 per cent (see table on page 1). This could presage even more layoffs; weekly initial claims for unemployment insurance remain at the highest level since the onset of this recession.

The deterioration in job market conditions was again concentrated in the already suffering manufacturing sector, especially in the durable goods area. In the primary metals industries, which include copper and steel, one out of every four workers was unemployed in September. In nondurable manufacturing, the shrinking textile industry registered an 18.2 per cent unemployment rate, up from 15 per cent in August. The hard-hit construction sector has 17.2 per cent of its labor force looking for jobs.

. . . Remains Precarious

In contrast to the previous four recessions, however, this time around there has been a marked reduction in jobs in the service sector. In these cycles, there were substantial layoffs in other areas, but employment in the service sector always kept on increasing. Since the start of the current recession, however, employment in this area contracted by almost 200,000 workers. And in response to the ongoing depressed sales of autos, furniture, appliances, apparel and other durable and nondurable goods, many wholesale and retail establishments have been forced to cut their payrolls. Last month, they laid off 56,000 workers.

Importantly, employment at all levels of government has been reduced sharply. As a consequence of cutbacks in many federal spending programs and the growing reluctance of local electorates to pay more for state and local government, more than 400,000 government employees, mostly at the state and local level, have been laid off since the start of this recession; 90,000 lost their jobs last month alone.

One consolation is that most of the unemployed are not the sole breadwinners in their households—as was the case 42 years ago, the last time the nation experienced double-digit unemployment. More than 50 per cent of all those who are out of work today have at least one other person in their family working to help soften the blow of lost earnings. For example, the unemployment rate among married men in September was 7.3 per cent, but some 55 per cent had another family member helping out.

Despite the Administration's boasts about the improved purchasing power of those still working, things are not so rosy for the employed either. To be sure, the tax cut and the deceleration in inflation were helpful. However, wages and salaries per employed person have expanded at a very slow pace in the past year. At times, they even declined as large numbers of workers were forced to accept lower pay—giving concessions to employers to preserve their jobs—and reduced work schedules. In the seven months ending in July, wages and salaries per employed person rose by slightly more than two per cent. This did not even keep up with inflation—much less tax bracket creep—resulting in a net erosion in buying power of two tenths of one per cent.